



EXHIBIT 4
DATE 02/23/07
HB 792

2007 Legislative Session

House State Administration

February 23, 2007

Roxanne M. Minnehan, Executive Director
Montana Public Employee Retirement Administration

HB792 – Index postretirement GABA for future PERS/TRS members

The Public Employees' Retirement Board (PERB) respectfully opposes this legislation.

- ❖ This bill addresses only one of the three unfunded systems administered by the PERB.
- ❖ The PERB understands and respects desires to adjust benefits rather than simply increasing public employers' contribution rates to address the unfunded actuarial liabilities. However, within their fiduciary and statutory duty, they do not feel it is appropriate for them to support legislation that:
 - creates inequity among members within the same system – some members would have the benefit of a 3% GABA while others would have 0-1.5% GABA while contributing at the same rate;
 - allows for a fluctuating retirement benefit;
 - does not provide assurances that retirements benefits will help retirees maintain an acceptable standard of living.
 - provides an ad hoc benefit that is not pre-funded.
 - provides funding entirely through adjustments to the actuarial liability which is in direct opposition to current PERB Policy.
- ❖ A moving GABA tied to the actuarial liability may jeopardize our qualified plan status.
- ❖ Ad hoc adjustments based on yearly reviews of the fund status are very problematic:
 - The actuary can not anticipate for a moving benefit target.
 - Places stress on the retirement system by not pre-funding the benefit by averaging the cost over the working life of the member.
 - There is no method in place to collect the contributions to pay for the benefit adjustments.
 - Annual reviews will result in too frequent GABA adjustments.
 - Provides no level of assurance to retirees.
- ❖ There would be no immediate impact to the current actuarial unfunded liability because there are no changes to the benefits of any current member.
- ❖ Since the amendment would only affect future members, the normal cost will be lower for new members; however, it will decrease over time to the **ultimate** normal cost rate when no active members remain who are entitled to the current GABA (approximately 30 years plus). That ultimate normal cost rate results in a 1.31% decrease to the current normal cost rate. The amortization period is reduced to 26 years.

- ❖ Reducing the GABA diminishes the system and results in disparity in the work place. Two workers side-by-side will be contributing at the same rate; however, depending on date of hire, the GABA will be different.
- ❖ New hires do not create unfunded liability – the current contribution rate covers their normal cost, including the 3% GABA. However, retirement systems depend on some contributions of future members' salaries to pay for the existing liability.
- ❖ A 3% GABA is not out of line. The average CPI over the past ten years has been well over 1.5%. Over the last 20, 25 and 30-year period, the CPI average was 3.02%, 3.55%, 4.42%, respectively.

Consumer Price Index	
20-year (1996-2005)	3.02
25-year (1981-2005)	3.52
30-year (1976-2005)	4.42

- ❖ It has been our experience that when retirement benefits change or do not maintain standards of living, bills for additional benefits will be introduced every legislative session.
- ❖ Retirement plans are part of the benefit package provided by employers. Promoting a good retirement plan helps with:
 - Recruitment
 - Retention
 - Rewarding Loyal Service
 - Reducing Employee Turnover
 - Making Retirement Possible
- ❖ Maintaining the current benefit level is a small step towards providing an adequate benefit for our public servants.
- ❖ The PERB has a fiduciary responsibility to act in the sole interest of its members and beneficiaries without conflicting interests. To comply with these responsibilities the PERB:
 - Has recommended increasing employer contributions to correct the funding status of three retirement systems.
 - Does not advocate reducing benefits and creating a new tier of employees.
 - Does not advocate ad-hoc adjustments.
 - Promotes pre-funding retirement adjustments through contributions received over the working life of the member.
 - Promotes a stable, sustainable benefit for retirees.
- ❖ We urge you to consider the issues this bill will create. The PERB recommends a “Do Not Pass”.

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